

USA Market



Family Firms-USA Market

NRG Metrics is the only Database providing data on Family Firms. We started this effort, which was well received by the researchers, 5 years ago. Having now grown the overall sample of companies and consequently having added several small-cap companies, we believe we provide the most comprehensive Family Firms dataset for listed companies.

This year, for the first time, we are undertaking a recording of the Family Firms Dataset data in the largest markets. We are starting with the USA market. At the end of 2021, there were 4,270 listed companies on the two American stock exchanges (New York Stock Exchange and Nasdaq). NRG Metrics covers all listed companies in the USA. From the 4,270 companies we subtract the 841 companies that belong to the financial sector.

Table 1. Number of Companies

	Total No. of Companies	Financial Companies	Non-Financial Companies
USA	4269	842	3427
S&P 500	492	89	403
S&P 400	384	93	291
S&P 600	575	145	430
Russell 1000	986	195	791
Russell 2000	1906	400	1506
Russell 3000	2888	595	2293
Dow Jones	30	5	25
Nasdaq	100	0	100

In building the Family firms Dataset, we selected 19 different definitions of Family Firms. These definitions come from the literature and have been published in well-established journals. Because these definitions differ significantly from each other, it follows that what one researcher considers as a Family Firm, does not coincide with what others consider. The consequence of this is that the results of the research work as well as the conclusions drawn depend on the definition used.

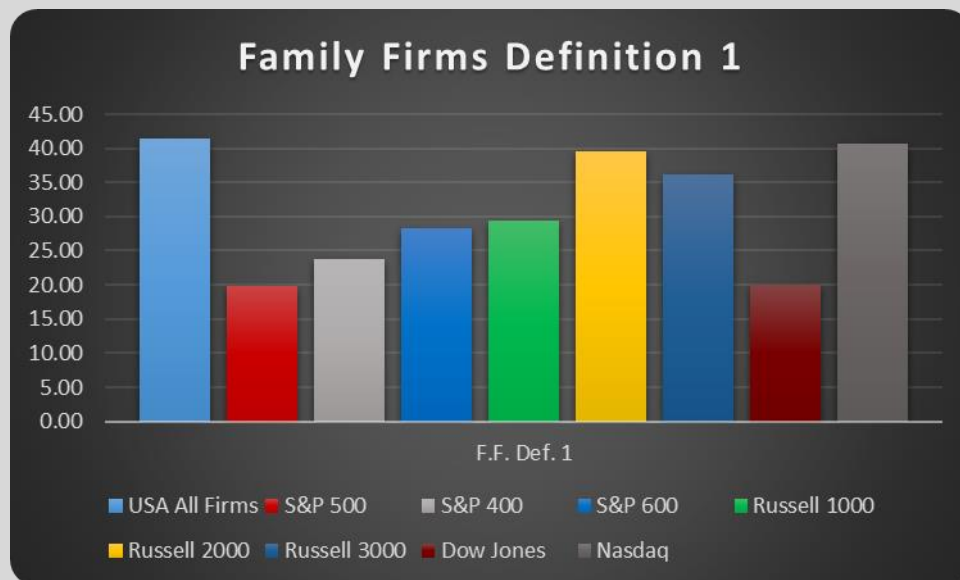
Depending on the definition, the weight is given to a different characteristic of the company each time. In other cases, the existence of the founder of the company plays a dominant role especially if he remains in the position of CEO or not. In other definitions, weight is given to the percentage of the major shareholder (20%, 10%, etc.) and whether they are a family, an individual or an unlisted firm. Other definitions require the existence of two or more related individuals.

We chose to present 4 different definitions and see how the results differ per definition. In each chart, the results are presented for all listed companies in America as well as for 8 important indices: S&P 500, S&P 400, S&P 600, Russell 1,000, Russell 2,000, Russell 3,000, Dow Jones, Nasdaq.

Family Firm Definition 1: Family firm if there exists fractional equity ownership of the founding family and / or the presence of family members serving on the board of directors.

According to this definition, 41.46% (1,421 companies) of the companies listed in the USA are classified as family ones. On the contrary, only 19.85% (80 companies) of the companies that belong to the S&P 500 large capitalization index, can be characterized as Family Firms according to definition 1. This definition is considered the most representative one of Family Firms since it simultaneously includes the presence of a shareholder relationship of the family that founded the company but also the presence of family members on the Board of Directors.

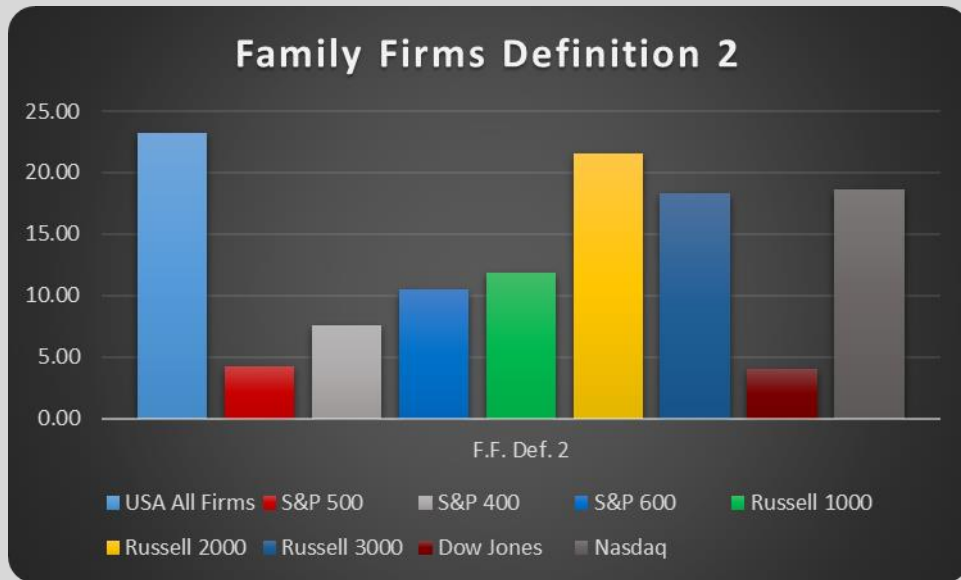
Figure 1. Family Firms Definition 1



Family Firm Definition 2: CEO founder indicates a founding family firm when the CEO is the founder of the firm.

According to definition 2, a company is considered as a Family Firm only if the CEO is the founder of the company. In the total number of the American listed companies (always excluding companies in the financial sector) we again find the highest percentage. More specifically, 23.23% or 796 companies, meet this criterion. On the contrary, in the Dow Jones and S&P 500 indices we find the lowest percentages with 4% and 4.22% respectively.

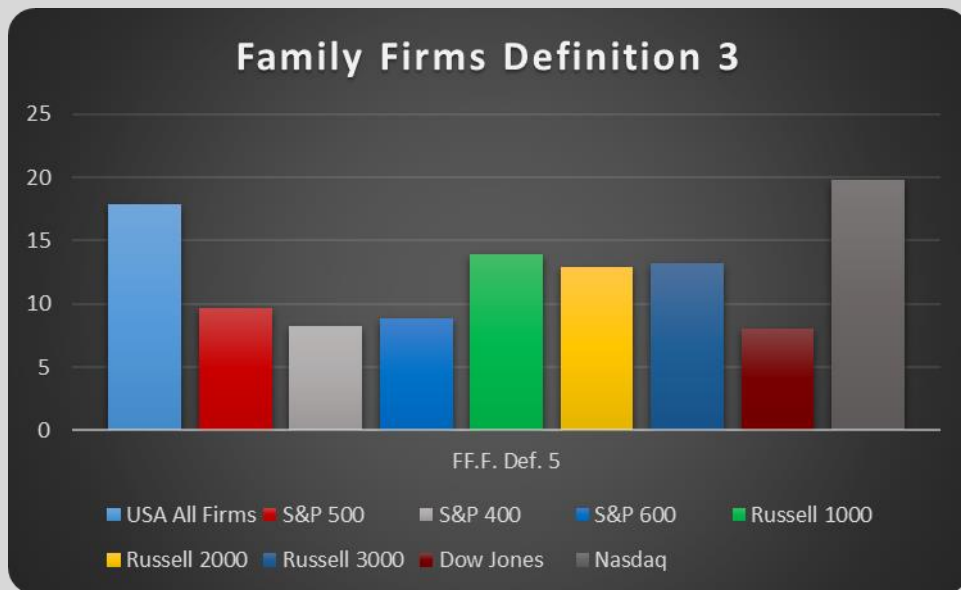
Figure 2. Family Firms Definition 2



Family Firm Definition 3: The family is the largest vote holder.

In the case of definition 3, for a company to be classified as a Family Firm, the family that founded the company should be present in the company's share capital and at the same time the family should be the largest vote holder. Also, according to the third definition, the total number of the companies listed on the two American stock exchanges gather the largest percentage with 17.89% and 613 companies. In last place comes the Dow Jones index with only 8%.

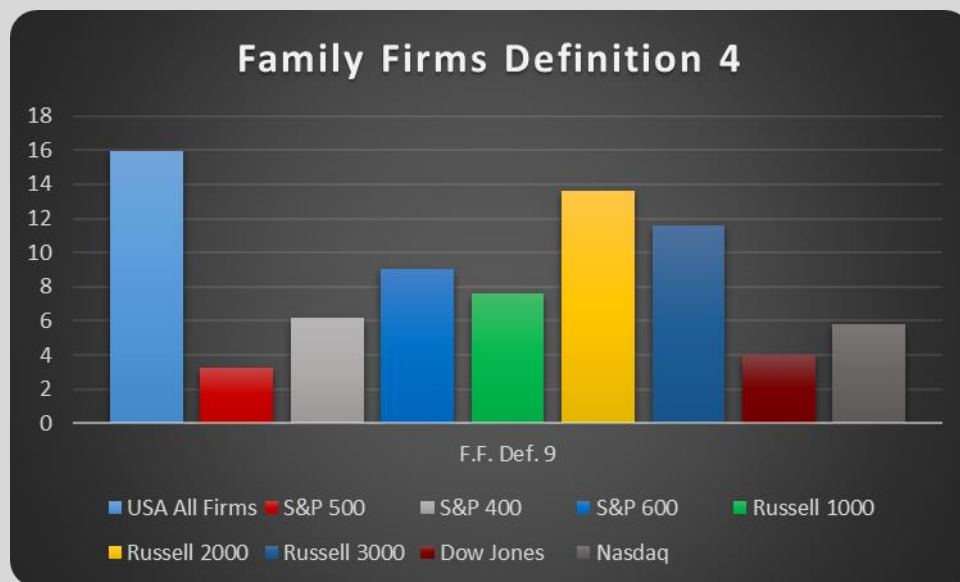
Figure 3. Family Firms Definition 3



Family Firm Definition 4: Family firm if a family or an individual or unlisted firm on any stock exchange is considered as the ultimate owner (greater than 20% of either cash flow rights).

Contrary to the 3 cases in which the existence of the family that founded the company is necessary, in the case of the fourth definition, a company is characterized as a Family Firm if the major shareholder of the company that has more than 20% of the company's shares is an individual, a family or a company that is not listed on the stock exchange. 15.96% of the companies listed on the American stock exchange meet this criterion. The lowest percentage is shown by the companies belonging to the S&P 500 index, with only 3.23% of them having major shareholders with more than 20% family or an individual or unlisted firm.

Figure 4. Family Firms Definition 4



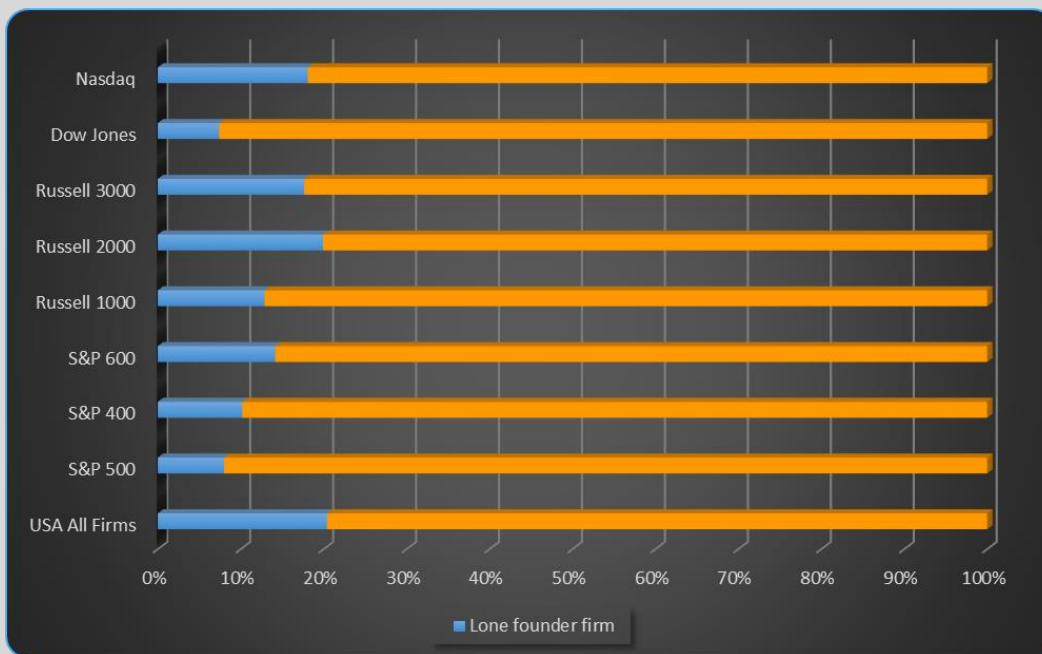
As expected, the lowest percentages of Family Firms are found in the large-cap indices (S&P 500, Dow Jones). On the contrary, in the indices with low capitalization companies (Russell 2.000) as well as in the total list of companies of the American market, the presence of Family Firms is increasing.

However, in addition to the Family Firm definitions, we chose to present some additional variables such as the following: Lone Founder, Person's name in the company's name, Classification of CEO and the top 5 of firms by the Family Ownership stake.

Lone Founder: A binary variable, 1 indicates a lone founder's involvement.

Another variable that has gathered the interest of several researchers is the Lone founder variable. Lone founder firms are defined as those in which an individual is one of the company's founders with no other family members involved and is also an insider (officer or director) or a large owner (5% or more of the firm's equity). 25.65% of all listed companies can be characterized as Lone Founder companies.

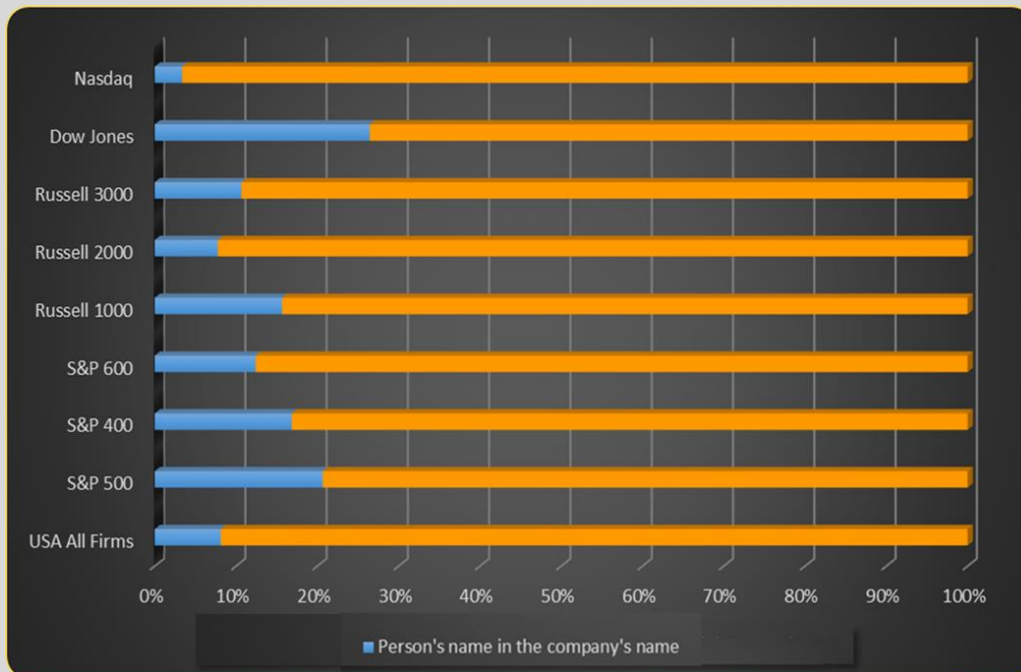
Figure 5. Lone Founder



Person's name in the company's name.

According to many researchers, this variable shows the great influence that the founder of the company has on the company. Equals 1 if the company's name is the same as the name of the founder, 0 otherwise. Contrary to all the previous cases, the highest percentages of this variable are found in companies that belong to the large capitalization indexes. More specifically, 26.05% or 105 companies that belong to the S&P 500 index have their founder's name in their company name.

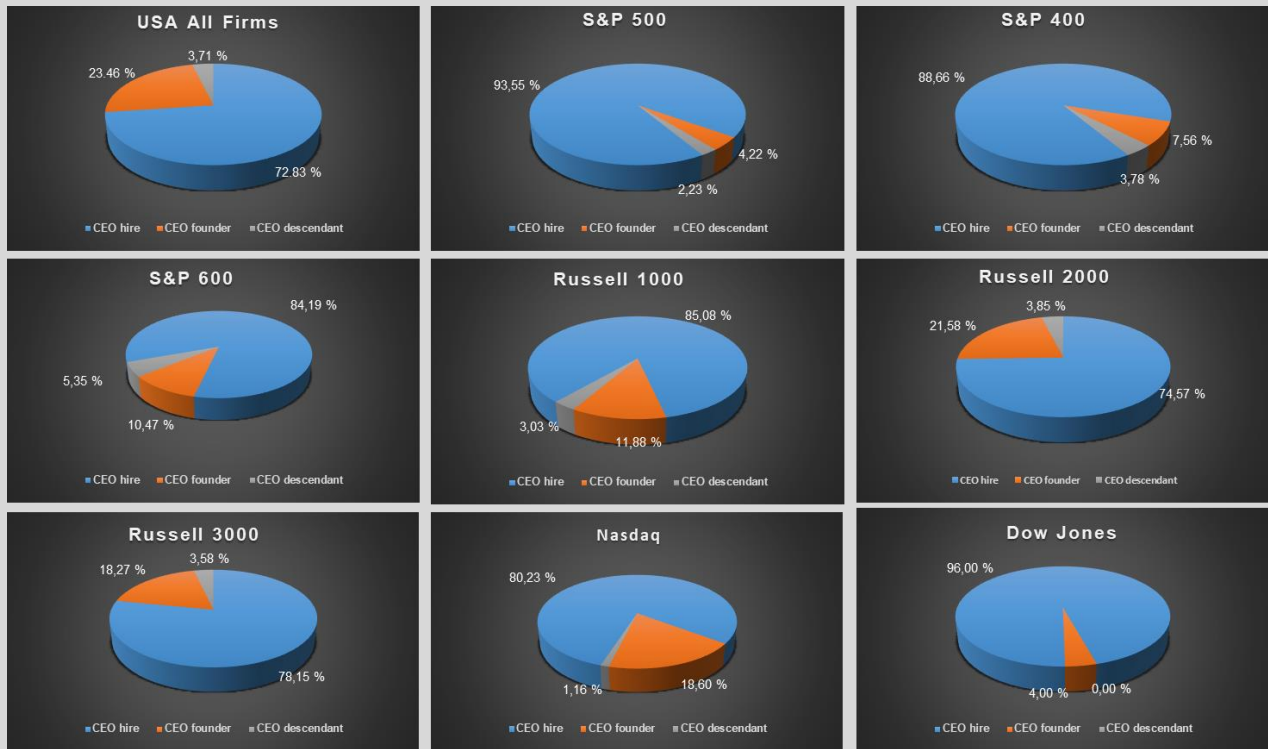
Figure 6. Person's name in the company's name.



Classification of CEO

With this variable we examine whether the CEO is the Founder of the firm (or Descendant) or has no previous relationship with the firm (CEO Hire). 23.46% of the companies that belong to the stock exchanges of America have as their CEO the founders of the company. 5.35% of the companies in the S&P 600 index have as their CEO descendants of the founders while 93.55% of the companies in the S&P 500 index have hired a CEO who is not related to the family that founded the company.

Figure 7. Classification of CEO



A very important variable in the Family Firms literature is the Family Ownership Stake. More specifically, Family Ownership Stake is the ratio of the number of shares of all classes held by the family to total shares outstanding. The numerator includes all shares held by family representatives (e.g., founder (CEO or Chairman or Chairman-CEO), descendants (CEO or Chairman or Chairman-CEO), family members, family representatives). The companies with the highest percentages of family ownership are:

Figure 8. Family Ownership Stake

